

July 21, 1998

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**Ex Parte**

Ms. Magalie R. Salas  
Secretary  
Federal Communication Commission  
Room 222  
1919 M. Street, N.W.  
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

**ORIGINAL**

Re: CC Docket No. 98-81, In the Matter of 1998 Biennial Regulatory Review—  
Review of Accounting and Cost Allocation Requirements

ASD File No. 98-64, United States Telephone Association Petition for  
Rulemaking

CC Docket No. 96-150, In the Matter of the Implementation of the  
Telecommunications Act of 1996: Accounting Safeguards Under the  
Telecommunications Act of 1996

Dear Ms. Salas:

In accordance with the Commission's rules, please be advised that on July 20, 1998, Mr. Carl Geppert of Arthur Andersen, Ms. Mary Henze representing Bell South, Mr. Scott Randolph representing GTE Service Corporation, Mr. Tony Alessi representing Ameritech, Mr. Mike Crumling representing USWEST and the undersigned representing SBC Communications Inc. met with the following personnel of the Federal Communications Commission (Commission): Mr. Brett Kissel, Mr. Ron Kaufman, Ms. Alicia Dunnigan, Mr. Tim Peterson, Mr. Tony Dale, Mr. Andy Mulitz, Mr. Wade Harriman, Mr. Robert Hood and Mr. Warren Furshein, all of the Accounting Safeguards Division; Mr. Warren O'Hearn of the Cable Services Bureau; and Ms. Kaylene Shannon and Mr. Chuck Keller of the Accounting Policy Division. The purpose of the meeting was to discuss and answer questions regarding Arthur Andersen's paper, *Accounting Simplification in the Telecommunications Industry*. A summary of the discussion is outlined in the attachment.

Prior to the release of the Accounting Notice, Arthur Andersen began development of the position paper to provide critically needed analysis of the Commission's USOA. The conclusion reached in this accounting position paper is that extensive reform of USOA, well beyond that contemplated in the Accounting Notices, is urgently

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Prior to the release of the Accounting Notice, Arthur Andersen began development of the position paper to provide critically needed analysis of the Commission's USOA. The conclusion reached in this accounting position paper is that extensive reform of USOA, well beyond that contemplated in the Accounting Notices, is urgently needed. These recommendations can be adopted now to ease the recordkeeping burdens on **all** LECs with the ultimate goal being full reliance on Generally Accepted Accounting Procedures (GAAP).

The proposals for simplification and/or elimination discussed in the position paper should be adopted expeditiously by the Commission. They provide a framework for a *transition* from today's detailed Part 32 regulatory accounting and recordkeeping requirements to more of a "level playing field" where all carriers are subject to the same requirements under GAAP.

An original and one copy of this letter and the attachments are being submitted. Acknowledgement and date of receipt of this transmittal are requested. A duplicate transmittal letter is attached for this purpose.

Please include this letter in the record of these proceedings in accordance with Section 1.1206(a)(2) of the Commission's Rules.

If you have any questions on this, please do not hesitate to contact Ms. Jeannie Fry at 202-326-8894.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeannie Fry". The signature is stylized with a large, looped "J" and a cursive "Fry".

Attachment

## **ACCOUNTING SIMPLIFICATION IN THE TELECOMMUNICATIONS INDUSTRY**

- ◆ **The existing Part 32 USOA does not represent the current regulatory or competitive paradigm.**
  - Original objective of producing meaningful financial, management and regulatory information no longer being achieved.
  - Details no longer relevant under pure price cap regulation.
- ◆ **Part 32 needs to be streamlined now.**
- ◆ **Long-term objective should be full reliance on GAAP.**

## **AREAS OF GREATEST OPPORTUNITY**

### **◆ Part 32 Account Structure and Accounting Requirements**

1. Class B Level
2. Expense matrix categorization
3. Part 32 materiality standards
4. Advance notification requirements

### **◆ Property Records and Depreciation**

1. Permit the accounting and tracking of plant assets consistent with management requirements and GAAP
2. Allow carriers to set depreciation rates and methods based on GAAP.

### **◆ Affiliate Transaction Rules**

1. Eliminate asymmetrical affiliate transaction rules for services.
2. Expand the FMV exemption.
  - materiality-based
  - support service affiliates